SOUTH CAROLINA
OFFICE OF THE ADJUTANT GENERAL

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1999

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 8, 2000

Major General Stanhope S. Spears
Adjutant General
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the Adjutant General (the Agency), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control, Revenues, Reconciliations, Accounting Transactions, Deferred Revenues, Public Assistance, Cost Allocation Plan, and Data Translation to the State in the Accountant's Comments section of this report.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Agency, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control, Expenditures, Reconciliations, Accounting Transactions, Public Assistance, Cost Allocation Plan, Permanent Improvement Project Accounting, and Data Translation to the State in the Accountant's Comments section of this report.

3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control, Reconciliations, Workers' Compensation and Cost Allocation Plan in the Accountant's Comments section of this report.

4. We tested selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control and Accounting Transactions in the Accountant's Comments section of this report.

5. We tested selected entries and monthly totals in the subsidiary records of the Agency to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control, Revenues, Reconciliations, Accounting Transactions, and Accounting System in the Accountant's Comments section of this report

6. We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 1999, and tested selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Agency's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or in STARS. The reconcilations selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Internal Control, Reconciliations, and Data Translation to the State in the Accountant's Comments section of this report.

7. We tested the Agency's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our findings as a result of these procedures are presented in Revenues, Expenditures, Reconciliations, Closing Packages, Deferred Revenues, Petty Cash Checking Accounts, Workers' Compensation, Tuition Assistance Program, Schedule of Federal Financial Assistance, Public Assistance, Cost Allocation Plan, and Permanent Improvement Project Accounting in the Accountant's Comments section of this report.

8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from our engagement for the fiscal years ended June 30, 1998 and 1997, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in various comments in Section A of the Accountant's Comments as described in Section B - Status of Prior Findings in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Agency and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Internal Control, Closing Packages, Petty Cash Checking Accounts, Tuition Assistance Program, and Permanent Improvement Project Accounting in the Accountant's Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Agency and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Reconciliations, Schedule of Federal Financial Assistance, Cost Allocation Plan, and Data Translation to the State in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Agency's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Adjutant General and of the management of the South Carolina Office of the Adjutant General and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

INTRODUCTORY COMMENTS

The entire operations under the South Carolina Adjutant General are very complex, including military operations at both the federal and state levels. Many employees under the Adjutant General's supervision are federal military and/or civilian employees and many of the federal military operations are funded and accounted for by federal agencies. The Adjutant General is also responsible for the South Carolina Office of the Adjutant General (the Agency), a State agency governed by the same State laws, rules, and regulations. The State Auditor's Office is responsible for any required audit functions for the Agency. These functions include an agreed-upon procedures engagement at the agency level as well as the inclusion of the State agency in the Statewide Single Audit and the audit of the State's financial statements.

For fiscal year 1999, the Agency had approximately $8.3 million appropriations and 62 authorized full-time equivalent positions (FTEs) in general funds and $29 million appropriations and 191 FTEs in total funds. Most of the difference in general and total funds is federal funding for military operations, maintenance, and construction. In addition to the military operations, the Agency also has an emergency preparedness division.

In our comments that follow we refer to the entity as "the Agency". As such, we are referring to the State agency, South Carolina Office of the Adjutant General and not to all operations under the supervision of the Adjutant General. As necessary, we will mention these other operations and attempt to denote that these areas are not part of the entity to which these engagements apply.

INTERNAL CONTROL

Introduction

The following comment was included in the State Auditor's report on the Office of the Adjutant General for fiscal years ending 1998 and 1997.

Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. An entity's internal controls are comprised of the following five interrelated components.

1. <u>Control Environment</u> sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
2. <u>Risk Assessment</u> is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
3. <u>Control Activities</u> are the policies and procedures that help ensure that management's directives are carried out.
4. <u>Information and Communication</u> are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
5. <u>Monitoring</u> is a process that assesses the quality of internal control performance over time.

The following subsections further define the five components of internal control and describe the Agency weaknesses and our recommendations.

<u>Control Environment</u>

As described above the control environment sets the tone of the organization. Factors comprising the control environment include commitment to competence, organizational structure, assignment of authority and responsibility, and human resource policies and practices.

In many ways the Agency's organizational structure is very similar to a military organization. Many of the Agency's key management have a military background which is very useful with respect to the Agency's federal mission. However, the Agency is a State agency and it also requires staff members who are familiar with State government laws, rules, and regulations. As a result of employee turnover, etc., the Agency has lost key personnel who had a considerable amount of State experience. The loss of State experience has significantly impacted the finance department where familiarity with the State's accounting system (STARS) and State laws, rules and regulations is essential. Also, it does not appear that management has taken steps to ensure that new employees have received adequate training with respect to State requirements. In addition, the Agency has not taken steps to correct the findings reported in the Auditor's Comments section of our agreed-upon procedures report for the year ended June 30, 1996 or findings and questioned costs reported in the Statewide Single Audit Report for the year ended June 30, 1997. As a result, the same or similar comments are repeated throughout this document.

Risk Assessment

An entity's risk assessment for financial reporting purposes is its identification, analysis and management of risks relevant to the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. Risks relevant to financial reporting include external and internal events and circumstances that may occur and adversely affect an entities ability to record, process, summarize, and report financial data consistent with the assertions of management (e.g., changes in the operating environment, changes in personnel, etc.).

The Agency's director of budget and finance was terminated in fiscal year 1997. In July 1997 the Agency named an interim director, filling the vacancy internally. The employee was appointed as the permanent director in April 1998. Between July 1997 and December 1998 the Agency had not filled the vacancy created by the internal promotion. During this time the Agency hired temporary employees or contracted with temporary service agencies to fill positions within the budget and finance department. And as stated earlier, because the employees were not familiar with the STARS and State laws, rules, and regulations it impacted the Agency's ability to process and record accounting transactions.

Control Activities

The control activities include operating policies and procedures which are clearly written and communicated. Policies and procedures should address the processing of accounting transactions, physical controls, segregation of duties, and identification of changes in laws, rules, and regulations that affect the agency.

The Comptroller General's Policies and Procedures Manual (STARS Manual) provides guidance to agencies on how to process accounting transactions on the STARS. We determined that the STARS Manual used by budget and finance is not current. As a result, the accounts payable staff has been using outdated object codes to define current accounting transactions that it processes on STARS. In addition, the Agency has decentralized its accounting functions by giving more responsibilities to unit personnel throughout the State, but has not provided unit personnel with resources (e.g., training, equipment, etc.) to perform the additional duties. We also noted that independent reviews of transactions were being performed by employees who reported to the preparer, were being performed by personnel that were not familiar with STARS and other State and federal laws, rules, and regulations, or were just not being performed. This breakdown in controls occurred because of employee turnover in budget and finance.

Information and Communication

Activities relevant to financial reporting objectives consists of methods and records established to record, process, summarize, and report entity transactions and to maintain accountability for the related assets, liabilities, and equity. The quality of system-generated information affects management's ability to make appropriate decisions. To be effective the information system should include:

1. An accounting system which provides for separate identification and allocation of transactions according to the entity's separate funding sources;
2. Adequate source documentation to support recorded events;
3. A record retention system that ensures compliance with state and federal requirements;
4. Reports that provide managers with timely and useful information; and
5. Reconciliations performed timely to enable timely detection and correction of errors and irregularities.

Based on our observations the Agency's accounting system is not providing users with the information they need to carry out their duties. Internal users do not appear to understand or trust the information provided by the accounting system. As a result, program managers do not use the accounting reports provided by budget and finance. Instead program managers often maintain their own books, usually in a federal reporting format, and completely ignore the books maintained by budget and finance.

The situation described above is most evident in facilities management (FMO). FMO is responsible for construction activities at all Agency facilities. Most FMO employees are employees of the federal government who work in the Agency's headquarters. The Agency's procurement department is also involved with construction projects. We noted that information necessary to ensure proper accountability is not always communicated between FMO, budget and finance, and procurement. For example, we noted open federal grants on the Agency's books which were considered closed by the FMO. We were told that the Agency had not closed them because the accounting records reported negative or positive cash balances in the federal grant accounts.

We also noted that the Agency does not prepare timely account reconciliations. In addition adjustments to record reconciling differences noted during the reconciliation process are not made. As a result, errors which may have a material effect on the accounting records of the Agency and/or State (i.e., STARS) are not detected timely and may go uncorrected. For example, we noted that the Agency did not use the correct project and phase code when it processed certain federal grant transactions. These errors, also affect the State Treasurer's Office (STO), because the STO uses information from STARS to monitor compliance with the Cash Management Improvement Act.

Monitoring

Management monitors internal controls to ensure that the controls are effective and operating as intended. Effective monitoring procedures include independent checks by managers and supervisors, as well as an active internal audit presence. In fiscal year 1998, the Agency hired a resources manager who was responsible for budget and finance, internal review, and procurement. This employee was given additional responsibilities which prevented her from effectively managing these three areas. In addition turnover in key accounting personnel exacerbated the condition.

We were told that the internal review function was not staffed until January 1999 when one of the two positions was filled internally. Therefore, periodic site reviews of the Guard units have not been performed even though these units have been given more administrative responsibilities during this same period. We are uncertain whether the internal review employee is performing routine quality reviews (i.e., internal audits) of the Agency or is working on special projects. However, if the internal review department is to perform an internal audit function it must be independent of the resources manager and should therefore report to upper level management (e.g., the Adjutant General).

We were told by accounting department personnel that the Agency began taking corrective action on these errors in fiscal year 2000. They also told us that the Agency now has a current STARS Manual and is training its employees to comply with the policies and procedures included in the STARS Manual. We were also told that the internal review employee began periodic site reviews of the Guard units in September 1999 and that this employee reports directly to the Chief of Staff of State Operations (one level above the resources manager).

Recommendations

We again recommend that the Agency thoroughly review and evaluate its system of internal controls over the entire Agency. It should begin with the control environment as it sets the tone for the entire organization and is the foundation for all other components of internal control. In order to correct the numerous weaknesses and errors detailed in the following comments and maintain the improvements in the future, the Agency must address its control activities (policies and procedures) to ensure that the Agency is accountable to the State and its grantors. Beyond the organization-wide controls, the Agency must devote significant attention to the information and communication component of internal controls. The accounting system must be accurate and understood by its users. The Agency must improve its reporting to its internal users, the State, and its grantors. Finally, we recommend that the Agency improve its monitoring component of internal control to ensure quality within the Agency.

REVENUES

Deposits and Supporting Documentation

We tested a sample of 81 deposits and noted the following deficiencies:

1. Supporting documentation (cash receipt, treasurer's receipt, and/or validated deposit slip) was missing for 42 deposits (the majority were deposits of armory rental receipts). As a result, we could not determine if 38 of these deposits were deposited timely in accordance with State law and Adjutant General regulations.
2. Six deposits were improperly recorded. For five of these, the information recorded on the deposit forms differed from that on the Agency's books (three with different document numbers, one with different amounts, and one with different subfunds). The sixth deposit was never recorded on the Agency's books.
3. Fiscal year 1999 receipts included in eight deposits were incorrectly recorded to fiscal year 2000.
4. Two deposits of armory rental receipts were not deposited timely in accordance with State law and Adjutant General regulations.
5. One cash receipt was dated one day after the date of the deposit.

Similar deficiencies were noted in the State Auditor's Report for fiscal years 1998 and 1997.

Proviso 72.1. of the fiscal year 1999 Appropriation Act requires that receipts be remitted to the State Treasurer at least once each week, when practical. Also, Adjutant General Regulation (AGR) 37-4 requires all funds received to be deposited by Tuesday of each week. Further, sound accounting practice requires that revenues be properly recorded (i.e. by document number, amount, account, subfund, and fiscal year) and that supporting documentation be properly maintained.

Coding of Revenue

We included a comment in the State Auditor's report for fiscal years 1998 and 1997 that the Agency does not use the correct object code to record federal revenues received from other State agencies. The State established revenue object code 2805 – federal grant state to distinguish these revenues from revenues received directly from the federal government. The Agency did not use object code 2805 in fiscal years 1996 through 1998. Agency personnel told us that the Agency is still not using this object code.

Section 2.1.6.0 of the Comptroller General's Policies and Procedures Manual, commonly referred to as the STARS Manual, outlines object codes to be used to properly classify revenue and expenditure transactions.

Transaction Numbering

We were unable to account for the numerical sequence of deposit documents. The Agency does not consistently assign document numbers to its deposit transactions. In some cases, the Agency uses its SABAR accounting system to assign document numbers automatically; in other cases, the Agency assigns document numbers manually. This methodology resulted in gaps in the numerical sequence of deposits. (A similar comment was included in the State Auditor's Report for the fiscal years 1998 and 1997.)

Sequential numbering of support documents and the periodic accounting of the numerical sequence of support documents are standard internal control procedures.

Recommendations

We recommend that the Agency develop and implement control procedures to strengthen internal controls over cash receipts and revenues that will ensure that receipts are deposited and recorded in accordance with sound accounting practice and the Agency's policies and State laws, rules and regulations. Document numbers used for deposit transactions should be assigned in sequence and periodically accounted for. We also recommend that all staff responsible for processing accounting transactions receive proper training on the use of object codes defined in the STARS manual. Finally, the Agency should establish procedures to ensure that supporting documentation is properly maintained and safeguarded.

EXPENDITURES

Procurement Code

Our sample of 25 cash disbursements included eleven vouchers for goods or services that cost less than $1,500. For seven of these vouchers the Agency did not annotate that the "price is fair and reasonable" as required by the South Carolina Consolidated Procurement Code (the Code), Section 11-35-1550.2(a).

Expenditure Cutoff

The Agency paid four invoices totaling $204,129 with fiscal year 2000 appropriations for goods and services that were received in fiscal year 1999. We were told by accounting personnel that the Agency did not have policies and procedures for fiscal year 1999 to ensure that vendor invoices are paid in the proper fiscal year. Proviso 72.3. of the Fiscal Year 1998-99 Appropriation Act states, "Subject to the terms and conditions of this act, the sums of money set forth in this Part, if so much is necessary, are appropriated … to meet the ordinary expenses of the state government for Fiscal Year 1998-99, and for other purposes specifically designated."

Similar comments were included in the State Auditor's report for fiscal years ended 1998 and 1997.

We recommend that the Agency review its internal control policies and procedures over disbursements and expenditures to ensure that they are adequate in design, properly implemented, and operating effectively. These policies and procedures should also ensure compliance with state and federal laws, rules, and regulations. We also recommend the accounting department develop and implement procedures to ensure that the Agency pays for goods/services in the fiscal year in which they are received. Such procedures should include contacting vendors at fiscal year end for invoices for goods/services received through June 30 and notifying other Agency departments to promptly forward vendor invoices to the accounting department.

RECONCILIATIONS

The following comment was included in the State Auditor's report on the Agency for fiscal years 1998 and 1997.

> Agencies are required to perform cash, revenues, expenditures, and CSA467 report (federal programs) reconciliations between their books and those of the State Comptroller General who maintains the State's books (STARS). For all four types of monthly reconciliations for both fiscal years 1998 and 1997, we noted that the Agency did not adequately document or explain variances between STARS and the Agency's books. The Agency had a temporary employee preparing the reconciliations much of this time. He primarily identified differences (in total) as opposed to identifying reconciling items. The Agency did not use the reconciliation process as a means to identify and correct errors. We requested explanations for reconciling items as the engagement progressed and as we completed fiscal year 1997 fieldwork in April, 1998. The Agency stated that it would provide us this information within a few weeks. When we returned in September, 1998, to begin the fiscal year 1998 engagement, the Agency still could not provide us with the 1997 information and it never provided us with explanations for fiscal year 1998 reconciling items. We could not determine why the variances existed between STARS and the Agency's books or which books are correct. The Agency did not place an emphasis on controls over reconciliations and therefore it allowed errors to go undetected and uncorrected.
>
> The temporary employee responsible for preparing the reconciliations terminated in December 1998. In our opinion the Agency is not using the reconciliation process to identify and correct errors.
>
> Also for fiscal year 1997 reconciliations, we noted the following control weaknesses:
>
> 1. Several expenditure reconciliations were not signed and dated by the reviewer and two were not signed and dated by the preparer or reviewer.
> 2. Several revenue reconciliations were not signed and dated by the reviewer. Two monthly reconciliations were missing.
> 3. The cash and CSA467 report reconciliations for the months of July through April were not signed and dated by the preparer or reviewer.

For the fiscal year 1998 reconciliations, we noted the following control weaknesses:

1. Expenditure reconciliations were not dated by the preparer or reviewer.
2. Several revenue reconciliations were not dated by the reviewer. One was not signed or dated by the reviewer.
3. Cash reconciliations were not signed and dated by the preparer or reviewer. They were not prepared on a timely basis. Reconciliations for the months of July through January were dated May 1; February on May 11; March and April reconciliations on May 22; and May, June, and fiscal month 13 in September, 1998.

We requested reconciliations for fiscal year 1999 and were told by accounting personnel that they only reconcilied July 1998 through November 1998 but could not locate these reconciliations. We compared year-end revenues and expenditures between the Agency's books and STARS and noted numerous variances that the Agency was unable to explain. We also performed analytical reviews (compared recorded revenues and expenditures with those of the prior year and compared the percentage distribution of recorded payroll expenditures by fund source with the percentage distribution of fringe benefits by fund source) to determine the reasonableness of recorded amounts. Again, the agency was unable to explain significant variances because it does not know whether its books, STARS, or either are correct.

Section 2.1.7.20 C. of the STARS Manual requires that all agencies perform regular monthly reconciliations between their accounting records and STARS balances shown on STARS reports. These reconciliations must be performed at least monthly on a timely basis,be documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate.

We recommend the Agency develop and implement procedures to ensure that monthly reconciliations are promptly prepared and timely reviewed in accordance with State policy. Any reconciling items between the Agency's accounting records and STARS should be adequately explained and cleared in a timely manner.

ACCOUNTING TRANSACTIONS

Journal Entries

We scanned the Agency's population of 287 journal entries and found large gaps in the numerical sequence. We randomly selected 15 journal entries to test and found that four were recorded using incorrect expenditure object codes. We also found that four journal entries were prepared by supervisors and approved by subordinates. Further, we noted that one journal entry was not signed for approval. Finally, during our test of cash disbursements, we found that the Agency discovered a $12 error on a voucher after the voucher was recorded on its books. The Agency corrected the voucher by striking through the incorrect amount and writing the correct amount on the voucher. The Agency then submitted the corrected voucher to the Comptroller General for processing but failed to prepare a journal entry to correct the Agency's books.

A similar comment was included in the State Auditor's report for fiscal years 1998 and 1997.

Appropriation Transfers

We tested all of the Agency's eleven appropriation transfers and found that one transfer from the Budget and Control Board for base pay increases was not properly recorded. The Agency recorded an increase to cash and revenues on its accounting system but failed to make a corresponding increase to appropriation (budget) balances for personal services, employer contributions, and fund balance.

Based on our observations, Agency personnel are not properly trained to prepare and approve Agency documents in compliance with the Comptroller General's Policies and Procedures Manual and other State laws, rules, and regulations.

For internal control to be effective, control procedures must be designed and operating to ensure the propriety and accuracy of recorded transactions and to prevent errors and irregularities. These controls include proper authorization of transactions; segregation of accounting duties; independent checks on performance and on proper valuation and classification of recorded amounts; and preparation and maintenance of adequate documentation including the numerical sequence of documentation.

We again recommend that the Agency ensure that its documents are prepared and recorded to ensure compliance with all applicable laws, rules, and regulations as well as proper controls. Agency documents should also be assigned sequential numbers and periodically accounted for by Agency personnel. The Agency should sufficiently train its employees to properly prepare transaction documents. All documents should be approved by someone in a supervisory role.

CLOSING PACKAGES

All Closing Packages

The State Comptroller General's Office obtains GAAP (generally accepted accounting principles) data from agency-prepared closing packages for the State's financial statements. Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions and further states that, "The accuracy of closing package data is extremely important." Section 1.9 states, "Agencies should keep working papers to support each amount they enter on each closing package form." In addition, the GAAP Manual recommends an effective review of each closing package and the underlying working papers to minimize closing package errors and omissions. To assist each agency in performing effective reviews, the State Comptroller General's Office requires a reviewer checklist to be completed for each closing package submitted.

Loans Receivable

For fiscal year 1999, the Agency failed to complete a loans receivable closing package for its tuition assistance program. The Agency does not have proper internal controls to ensure that it properly and accurately completes all closing packages as required by the Comptroller General.

A similar comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

Operating Lease

The Agency improperly completed the operating lease closing package for a lease in which the Agency is the lessor (the lease was properly reported on the operating lessor closing package). We were told that the preparer included the lease on the closing package in error.

Accounts Payable

The Agency did not prepare a schedule of accounts payable or document a review of invoices/vouchers that might have been included in the closing package. A similar comment was included in the State Auditor's Report for fiscal years 1998 and 1997. Also, the Agency reported a payroll accrual of $272,398 on the accounts payable closing package for agency funds. Section 3.12 of the GAAP Manual instructs the preparer to exclude payroll expenditures from the closing package.

Grants and Entitlements

Grant receivables and deferred revenue as reported on the grants and entitlements closing package do not agree to the Agency's schedule of federal financial assistance. The Agency revised its schedule of federal financial assistance several times to correct errors but failed to revise the closing package. See related findings in the comment, Schedule of Federal Financial Assistance.

A similar comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

Fixed Assets

Agency personnel could not provide adequate support for many of the individual amounts reported on the closing package including fixed asset additions, net reclassifications, and net intra-state transfers. Also, the Agency reported no constuction commitments at June 30, 1999, although it has several ongoing projects and reported contract retentions on its accounts payable closing package.

A similar comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

Compensated Absences

In the State Auditor's Report for fiscal years 1998 and 1997, we noted that the Agency reported a leave liability for an employee who earned holiday compensatory time in 1995 and 1996. For fiscal year 1999, we selected a sample of 15 leave balances but found no instances of extended holiday compensatory leave. However, we were told by Agency personnel that the Agency has not established procedures to monitor holiday compensatory leave to ensure that the leave is used within ninety calendar days as required by State Human Resources Regulations 19-703.06 C.4.

Recommendations

We recommend that the Agency develop and implement procedures to ensure that its financial information is properly identified and that its accumulated balances and transactions are reported in accordance with GAAP and GAAP Manual instructions. These controls should cover any information processed through STARS, closing packages, and the Agency'saccounting records. The Agency should retain supporting workpapers and file them in a manner in which they can be readily retrieved. The Agency should ensure that all closing package forms and supporting workpapers are completed and reviewed in accordance with the GAAP Manual requirements and guidance by employees who have been properly trained to prepare and review them.

DEFERRED REVENUES

The following comment was included in the State Auditor's report on the Agency for fiscal years 1998 and 1997.

> For fiscal year 1996, we noted that the Agency did not record revenues received but not earned until future periods as deferred revenues on its or the State's books as required by Section 3.2.2.1 of the STARS Manual. In fiscal year 1997, the Agency recorded deferred revenue in the State's books, but it recorded the transaction as ordinary revenue in its books. To agree the Agency's books to the State's books, we had to add the revenue and deferred revenue accounts on the State's books and agree the sum of those accounts to the revenue accounts on the Agency's books.
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> In fiscal year 1998, the Agency reversed the June 30, 1997 deferred revenues on the State's books. It recorded current deferrals in a separate revenue account on its books and in the deferred revenue account on the State's books. The Agency's accounting system allows for liability accounts, but it has not used the system to properly account for these transactions in accordance with generally accepted accounting principles (GAAP) or the State's instructions.

We were told by accounting personnel that the Agency is still recording revenues received but not earned until future periods as ordinary revenue in its books instead of in a liability account.

We again recommend that the Agency fully utilize its accounting system and properly account for deferred revenue. We further recommend that the Agency train its employees in the preparation and review of receipts and deposits to ensure proper procedures and accurate coding in accordance with both the State's accounting practices and GAAP.

PETTY CASH CHECKING ACCOUNTS

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> The Agency maintains approximately 80 armory units across the State. It receives a line-item State general fund appropriation of approximately $1.3 million to fund these armories. The Agency expends a small portion directly from that line item. The remainder is recorded as an expenditure from the State General Fund and as a revenue to the 3174 earmarked subfund. Each unit across the State opens a bank account in its name and operates it as a petty cash checking account. The units periodically request reimbursement from the 3174 subfund to replenish their bank accounts.
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> The supporting document provided by the Agency for the cash and investments closing package listed the imprest amount for each unit. For fiscal year 1997, all accounts had a $500 amount. This was the agency-authorized maximum amount for these accounts. For 1998, many of the accounts still have a $500 amount, but we noted 21 accounts had balances greater than $500, including a maintenance unit in Orangeburg that had a $3,700 balance. The Agency violated its own policy and State law by authorizing amounts greater than $500 and not obtaining the State Auditor's Office approval to increase these accounts.
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> Adjutant General Regulation 37-2, Paragraph 1-13.a. states, "Authorization to open a bank checking account must be requested in writing to TAG-DSO and approved by the South Carolina State Treasurer's Office and State Auditor's Office…" and Paragraph 1-13.b. states "Each Armory Fund Custodian shall be allocated $500." The only exception given for a higher amount is for bank accounts that impose banking fees for accounts with a minimum $200 balance. State law requires agencies to obtain State Treasurer approval for bank accounts and State Auditor approval for petty cash accounts.

For fiscal year 1999, we again noted that 21 accounts had balances greater than $500. We were told by accounting personnel that in fiscal year 2000 those armories with balances greater than $500 were given permission to do so by the Agency. However, the Agency did not obtain approval from the State Auditor's Office to increase the petty cash accounts above $500.

We recommend the Agency implement policies and procedures to ensure that prior approval is obtained from the State Auditor for increases in the petty cash checking accounts.

WORKERS' COMPENSATION

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> In fiscal years 1997 and 1996, the Agency paid approximately $341,000 and $170,000, respectively, in workers' compensation premiums. In fiscal year 1998 the Agency expended $33. The Agency did not allocate the premiums to general, earmarked, and federal funds; instead it charged 100% of the premiums to the general fund. We were told that the reduction in the worker compensation premium between fiscal years 1998 and 1997 occurred because the Agency received a five year credit as a result of overpayments made in prior years. It appears that the Agency reported federal National Guard active duty expenditures which are not covered by the State's workers' compensation policy.
>
> The worker's compensation premium is based on personal service expenditures. As a result, the Agency should have allocated the premium based on each fund's personal service costs.

For fiscal year 1999, we found that the Agency again charged 100% of the worker's compensation premium ($53,251) to the general fund.

Proviso 63G.1. of the 1999 Appropriation Act states, in part, "… any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of the employer costs of retirement, social security, workmen's compensation …"

We recommend that for each fiscal year the Agency allocate workers' compensation premiums or refunds among funds based on the funds' proportionate share of payroll. The Agency should obtain and file information related to billings, credits, and payments in a manner that can be easily retrieved to support workers' compensation coverage and expenditures. The Agency should also maintain supporting documentation for all billings even if the billings did not result in expenditures due to credits received and applied.

Also, we recommend that the Agency determine how long other funds have not paid their share of the cost and seek reimbursement as appropriate. If, as it appears, the credit the Agency received applied only to premiums paid by the State General Fund, then during the period the credit is being applied the other funds should be charged their share of current costs and remit them to the State General Fund. Any prior year recoveries and current costs charged to earmarked and federal funds during the period in which the credit is applied should be remitted to the State General Fund as refunds of prior years' expenditures.

TUITION ASSISTANCE PROGRAM

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> The Agency is not maintaining and monitoring accounting documentation for its tuition assistance program. Prior to August, 1995, the South Carolina National Guard awarded tuition assistance program scholarships to qualified college students. The program regulations stipulated that, if the recipient does not complete a two-year service obligation, the recipient must reimburse the Agency the total amount of the scholarship. The State provides funding for this program from its general fund. The Agency did not receive funding and did not award scholarships in fiscal years 1997 and 1996. In fiscal year 1998, the Agency again received funding and awarded scholarships.
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> As noted in our prior report, the Agency did not monitor or update the program's receivables during fiscal year 1996. As reported in our comment, Closing Packages – Loans Receivable, the Agency reported fiscal year 1996 data when it reported its fiscal year 1997 receivables to the State Comptroller General. It did not report these loans receivable, as required, to the State for fiscal year 1998.

The Adjutant General has delegated his responsibility for the agency's tuition assistance program to federal employees under his control. The Agency's responsibility after the assistance is paid to the Guard member has been limited to the preparation of the closing package which it submits to the State Comptroller General. The Agency informed us that the monitoring and updating is not performed by employees trained in budgetary or GAAP-based accounting.

It appears that the receivables are rarely collected by the Agency. In fiscal years 1999 and 1998, the federal employees referred to above attempted to collect past due receivables and considered requesting approval from the South Carolina Department of Revenue to have these delinquent accounts recovered through its refund offset program.

These conditions still existed in fiscal year 1999.

We were told by accounting personnel that the Agency elected not to contract with the South Carolina Department of Revenue to collect the delinquent accounts because of pending legal concerns regarding the use of income tax refunds payable to pay debts owed by individuals to the State. Also, the Agency did not complete the Loans Receivable closing package for fiscal year 1999 as required by the GAAP Closing Procedures Manual (see Closing Packages comment).

Adequate accounting control requires transactions to be properly classified by account and accounting period and properly valued; receivables monitored; collection plans implemented; and accounts updated in a timely manner as scholarship recipients meet their service obligations or payments on the outstanding balances are received.

We again recommend the Agency develop and implement procedures to ensure that the program is operating effectively, tuition assistance transactions are properly accounted for on the Agency's books, loan receivables at year end are properly reported to the State Comptroller General, and that appropriate steps are taken to collect reimbursement from individuals who do not meet their enlistment obligation.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> The State Auditor's Office prepares the State's schedule of expenditures of federal awards (SEFA) from agency-prepared schedules of federal financial assistance (SFFA). The SEFA is the primary financial statement audited in the Statewide Single Audit. The Agency receives funding from two programs which we audited as major programs in the Statewide Single Audit for fiscal years 1998 and 1997.
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> The Agency submitted its 1996 SFFA to the State Auditor's Office late. The schedule was not tested in the agreed-upon procedures engagement, but it was tested in the 1996 Statewide Single Audit. The fieldwork for the 1997 Statewide Single Audit was performed prior to the agreed-upon procedures for the same year; therefore, the SFFA was tested only in the Single Audit. For fiscal year 1998, we tested the SFFA in both 1998 engagements (at different levels of detail).
>
> For fiscal years 1998 and 1997, we noted numerous errors in the schedules. The Agency reported a different grant for each fiscal year in CFDA program 12.400 which should have been reported as 12.401. (Both 12.400 and 12.401 are major programs to the State.) The Agency reported several program names and numbers, grant names and numbers, and project/phase code numbers incorrectly. The 12.401 program is reported to the federal government per agreement appendix. The federal fiscal year and appendix number are easily identifiable fields in the federal grant number. We noted several errors in these numbers on the schedule; thereby making our Statewide Single Audit schedules incorrect.
>
> We corrected 1997 known errors in the schedule, but we determined the 1998 errors were too extensive to correct. In our opinion, the breakdown in controls over various other transactions cycles also led to errors in the Agency's SFFA.

We tested the Agency's SFFA for fiscal year 1999 during our 1999 Statewide Single Audit because the fieldwork for the 1999 Statewide Single Audit was performed prior to the agreed-upon procedures engagement. We noted errors similar to those reported in the prior State Auditor's Report.

We again recommend the Agency establish policies and procedures to ensure that the schedule is accurate; complete; prepared and reviewed by trained personnel; and supported by its accounting system and grant files. The Agency should carefully read and follow instructions from the State Auditor's Office.

PUBLIC ASSISTANCE

Section 3.3, page 9 of the GAAP Closing Procedures Manual states, "GAAP requires that the State use Agency Funds to account for any grant/entitlement funds that one agency will pass through to other State agencies … Accordingly, **the Comptroller General's Office asks that agencies establish and use separate STARS subfunds for grants/entitlements they will pass through to other State agencies."**

The Agency established two subfunds to account for federal grant pass-through funds received from the Federal Emergency Management Agency (FEMA). Subfund 5544 was established in fiscal year 1998 for hurricane relief and subfund 5903 was established several years ago for flood relief. The Agency recorded funds drawn from FEMA as credits to federal grant revenues and pass-through funds as debits to federal grant revenues. We noted several errors in the Agency's use of these subfunds. First of all, these subfunds translate to a governmental GAAP fund code in the State's GAAP-basis accounting system instead of to an agency GAAP fund code. Secondly, if the Agency had used these subfunds as it intended, federal grant revenues would have netted to zero for each subfund at fiscal year end because the Agency debited revenues instead of expenditures when recording the transfer to another State agency. This did not occur because of a subfund recording error. As we reported in the State Auditor's Report for fiscal years 1998 and 1997, the Agency recorded revenue received in the proper subfund; however, it transferred to another State agency approximately $49,000 out of Subfund 5544 instead of 5903, leaving subfund 5544 with a deficit revenue balance of approximately $49,000. This error and approximately $14,000 in ending cash balance created an ending balance of approximately $63,000 in subfund 5903 federal grant revenues. In fiscal year 1999, Subfund 5903 had no activity and therefore maintained its ending balance of We recommend the Agency implement procedures to ensure adherence to the State's accounting practices and GAAP regarding the establishment of subfunds in STARS and the GAAP funds to which they translate, the proper use of object codes especially if these subfunds are reclassified to agency funds approximately $63,000. However, subfund 5544 reported revenue of approximately $42,000and a revenue transfer of approximately $66,000 resulting in a deficit revenue balance of approximately $73,000.

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> <u>Reimbursed Funds</u>
>
> As noted above, the Agency receives FEMA funds as reimbursement for its expenditures (both direct and indirect expenditures). In July, 1996, the Agency received $339,412 from FEMA for administrative (indirect) costs related to Hurricane Hugo. The Agency should have remitted these funds to the State General Fund but instead it expended these funds in fiscal years 1998 and 1997 for its own use, mainly for equipment and automation.
>
> Near the end of fiscal year 1997, the Agency incurred approximately $852,000 in costs related to Hurricane Fran and received a supplemental appropriation to cover 100% of these costs. In July, 1997 (fiscal year 1998), FEMA reimbursed the agency approximately $657,000, which included 75% of the direct costs (FEMA's share) and approximately $18,000 for administrative costs. As of December 1998 (eighteen months after it drew the funds), the Agency had not remitted any of these funds to the State General Fund and had spent approximately $5,800 of these funds. The Agency stated that it believed it could keep the administrative funds and that it was unsure of the process to remit the other funds. The Agency does not equate administrative costs to indirect costs; therefore, it assumes that it can retain these funds.

In our follow-up of this condition, we found the Agency has not remitted the administrative costs of $339,412 received from FEMA to the State General Fund. We were told the Agency did not have available funds to repay this amount. However, we found that the Agency did remit in March 2000 $651,494 of the $657,000 received from FEMA in July 1997. As of the date of this report, the Agency still owed $344,918 to the State General Fund.

Section 2-65-70 (A) of the 1976 South Carolina Code of Laws, as amended, states in part, "All indirect cost recoveries must be credited to the general fund of the State, with the exception of recoveries from research and student aid grants and contracts." Code Section 11-9-125 states, "Federal and other funds must be expended before funds appropriated from the general fund of the State, to the extent possible, and any excess balances in accounts resulting from matching fund programs must be remitted to the general fund of the State. Federal or other funds generated by the expenditure of state funds, including refunds from prior year general fund expenditures, must be remitted to the general fund of the State if there is no federal or state requirement governing the specific use of the funds …"

We again recommend that the Agency remit all indirect costs to the State General Fund, including the $344,918 still owed as of the date of this report. We further recommend that the Agency train its employees in the proper treatment of direct and indirect reimbursement of grant funds and that it ensure timely cash management of all such funds.

COST ALLOCATION PLAN

The following comment was included in the State Auditor's report for the years 1998 and 1997.

> The National Guard Bureau which administers the Agency's two major military federal programs does not allow indirect costs for its military construction program or for its military operations and maintenance projects program except as part of an approved cost allocation plan (CAP). Prior to fiscal year 1997, the Agency did not have a CAP; therefore, it did not charge indirect costs to these two military federal programs. It did charge indirect costs to its emergency preparedness division's (EPD) grants and remitted these costs to the State General Fund.

For fiscal years 1998 and 1997, the Agency established a CAP for its military operations and maintenance projects program. For fiscal year 1997, the United States Property Fiscal Officer (USPFO) assigned one of its employees to the Agency to prepare the CAP. The USPFO approved the CAP for the federal government. This same USPFO employee who is now employed by the Agency prepared the updated CAP for fiscal years 1999 and 1998. Agency personnel did not provide us with documentation to support the approved CAP. The Agency did provide us with some preliminary information, but we determined that the information differed from that in the approved CAP.

Because we were unable to audit the information supporting the CAP we questioned all CAP costs in the Statewide Single Audit for the year ended June 30, 1998 related to fiscal years 1998 and 1997 ($358,089 – 1998 and$165,347 - 1997). Even though we could not audit the CAP, we did note the following errors with the plan and its implementation:

1. In its general ledger and its schedule of federal financial assistance (SFFA), the Agency is reporting all CAP costs in its military operation and maintenance projects program (12.401 program) even though the CAP includes some emergency preparedness division (EPD) grants from other federal programs.
2. Because the Agency is charging these other EPD grants under both the CAP and the indirect cost agreement, it is double charging these other grants.
3. The Agency is charging at least one employee directly to the 12.401 program and then indirectly charging a significant portion of her costs through the CAP.
4. Because the Agency stated that it believes CAP costs are not indirect costs, it has not remitted them to the State General Fund as required for indirect costs.
5. The Agency retains the CAP costs and is funding the hiring, particularly in fiscal year 1999, of employees as temporary grant employees. It is also using these funds for management consultants to assist in the procurement of a federal contract.
6. In hiring these temporary grant employees, the Agency is filling positions of a temporary and grant-specific nature as well as of a permanent and organization-wide, such as the resources manager over budget and finance, procurement, and internal review. It is also improperly gaining approval from the Office of State Budget for these temporary grant employees by improperly stating that they are working on specific grants.
7. The Agency did not seek the State's approval of the CAP and did not follow State laws, rules, and regulations in developing the CAP. The CAP does not include an allocation of central State services from the Statewide CAP.

We were told by accounting personnel the conditions described above still existed in fiscal year 1999.

The 1976 South Carolina Code of Laws, as amended, in Section 2-65-70 (A)(1) requires the recoveries of indirect costs, either through an approved indirect cost rate or cost allocation plan. Also, allowable cost/cost principles is one of the fourteen compliance requirements identified and described in the OMB Circular A-133 Compliance Supplement. Therefore, we are required by both state and federal requirements to audit the Agency's CAP.

Code Section 2-65-70 (A)(1) further states "Agencies shall prepare the indirect cost proposals and submit them to the board (State Budget and Control Board) for review. The board shall submit the proposals to the appropriate federal agencies, negotiate the agreements, and transmit approved agreements to the state agencies. ..." Code Section 2-65-70 (A)(2) states, "The board annually shall prepare the Statewide Cost Allocation Plan for allocation of central service costs to federal and other programs. The board shall ensure that state agencies recover costs approved in the plan through federal grants and contracts, subject to federal laws and regulations." The Agency did not seek Board approval for its CAP and did not include an allocation of central service costs for the State.

Part 3. B. of the OMB Circular A-133 Compliance Supplement states in part, "CAPs … usually are prepared on a prospective basis using actual financial data for a prior year or budget data for the current year. When the actual costs for the year covered by the CAP … are determined, the difference between the costs recovered based on the CAP … and the costs that would have been recovered had the CAP … been based on actual results is … carried forward to a subsequent CAP…, with the approval of the Federal cognizant agency for indirect cost negotiation." The Agency did not determine the differences as required and carry them forward to its CAP for fiscal years 1999 or 1998.

We again recommend that the Agency remit all costs recovered through the CAP to the State General Fund as required and refund to the federal grantor any indirect costs charged on grants which the Agency also included in the CAP. We further recommend that the Agency correct the errors in its CAP for fiscal year 1997 forward and obtain the required approvals from the State for its CAP.

The Agency should seek permanent positions for its employees who perform duties of a permanent and organization-wide nature instead of using “temporary grant positions”. If the Agency had the positions for employees who are included in the CAP established as State General Fund positions and received appropriations for these positions, then the State would recover these costs through the indirect costs the Agency remitted. The Agency with the State’s approval may determine an alternative manner in which to accomplish the accounting for CAP costs and recoveries. However, the Agency should not provide incorrect information to obtain approval for temporary grant employees.

We also recommend that the Agency establish, implement, and monitor policies and procedures which will ensure that the CAP is completed accurately, including roll-forward adjustments for the difference in actual costs and the costs used in the CAP, and is prepared and reviewed by employees trained in both federal and state requirements for a CAP. The CAP should be prepared accurately using data from its accounting system and other reliable sources and in accordance with applicable cost principles; properly supported with records retained for audit; and reviewed by a trained, independent employee to ensure accuracy, consistency, and proper Agency authority.

PERMANENT IMPROVEMENT PROJECT ACCOUNTING

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> The Agency receives most of its federal funding from the United States Department of Defense for two major programs: military operation and maintenance projects and military construction. During the 1998 Statewide Single Audit, we noted several errors related to the test of matching for military construction. That audit addressed only federal non-compliance; however, we noted more significant non-compliance related to state accounting rules and regulations and Statewide Permanent Improvement Reporting System (SPIRS) requirements which we will report below.
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> As noted in our comment, Internal Control-Information and Communication, internal controls over construction activities are extremely weak and risks are high due to a lack of communication between budget and finance, procurement, and facilities management. The Agency has a high number of errors and compliance violations involving SPIRS projects and a slow error correction rate due mainly to the decentralization of construction activities. The Agency has not made a clear division of responsibilities between the departments and has not recognized that its staff is inadequately trained to properly account for these projects.
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> We noted that the Agency established a statewide project for underground storage tank (UST) removal/replacement but also established projects for each individual tank. It reported the expenditures by individual project, but did not close the statewide project. Also, we noted that the Agency reported the budget balance (budget less expenditures) from the State's SPIRS report as the outstanding commitments on its fixed assets closing package. The budget balance includes recently-established projects for which no commitments have been made and also includes the $450,000 as noted above for the statewide UST project which should be closed.
>
> For armory construction projects funded with military construction funds, the State must provide a match of 25% of the total costs for armory construction projects that occur on State property. The Agency receives capital improvement bond (CIB) proceeds from the State for this match.
>
> For the Gaffney armory construction, the Agency received a federal budget increase of $26,490 from the National Guard Bureau (NGB) in March, 1996; however, it did not process the increase through SPIRS. At June 30 and still at November 30, 1998, the project was over expended in total by $16,942. Upon further investigation, we determined that the project actually exceeded its budget in October, 1997, and the State Budget and Control Board – General Services had notified the Agency then and again on January 8, 1999 to resolve the problem. After a second request from General Services, the Agency submitted an A-1 (SPIRS form) to increase the federal budget by the $26,490 on January 15, 1999. We did not determine why the oversight in processing the request occurred.

At June 30, 1998, and after consideration of the $26,490 federal budget increase, the Agency's budget balance for the project in total was $9,549. The Agency's CIB-funded balance was $11,890. Therefore, the Agency had still exceeded the federal budget for the project by $2,341 (total budget balance of $9,549 less the CIB budget balance of $11,890). We also noted that the CIB budget balance did not agree to the CIB proceeds left to draw of $14,590 per the State Treasurer's Office Debt Management System (STODMS) by a difference of $2,700 due to an expenditure made to the City of Gaffney in October 1997. As of December 31, 1998, the Agency had not made a CIB draw to cover this expenditure.

Also as noted in our Statewide Single Audit report, the Agency expended $107,487 as partial payment of a mediation settlement for the Pickens, Ware Shoals and Fountain Inn armories. It paid the $107,487 entirely from the Pickens' CIB fund rather than prorating the expenditure between each of the three projects' federal (75%) and CIB (25%) funds. At December 31, 1998, the Agency had not corrected this error.

According to budget and finance (BF) as well as the facilities management officer (FMO), the Agency paid the voucher as such due to a lack of funds for each project. Our review of the permanent improvement program summary (a SPIRS report) at June 30, 1998, determined that the total budget balance for each of the three armories was sufficient to pay its share of the voucher. Upon further investigation, we determined the problem to be in the budget balance per source of funds (federal or CIB). We noted that CIB draws and related expenditures were materially equal for Ware Shoals and Pickens (including the $107,487 erroneously charged entirely to Pickens). However for the Fountain Inn armory, the Agency had drawn the entire authorized CIB amount of $763,800 but had only reported $597,481 in related CIB-funded expenditures.

Based upon research and inquiries with BF and FMO, we determined that the Agency incurred expenditures in 1994 on the Pine Ridge Armory for which it did not have a sufficient budget. It originally charged these expenditures to Fountain Inn CIB fund and drew Fountain Inn CIB proceeds. Subsequently, both the expenditures and CIB draw were reclassified to the Pine Ridge CIB fund on the Agency's books but not on SPIRS. In so doing, the Agency intentionally drew and expended $168,574 of CIB funds authorized for Fountain Inn on its Pine Ridge armory without State approval. FMO stated that the Agency believed additional State funds were going to be awarded for Pine Ridge and that the funds it "borrowed" from Fountain Inn for Pine Ridge could be repaid. These extra funds never materialized for Pine Ridge, and now Fountain Inn is short of funds and is "borrowing" from Pickens. In effect, the Agency has created a situation in which it continuously completes one project from a subsequent project's source of funds. We believe this practice might date back even further than 1994.

Section 2-47-35 of the 1976 South Carolina Code of Laws, as amended, specifies that no project authorized for any capital improvement bond funding can be implemented until funds are made available and describes an authorization and approval process for scope, budget, and funding changes. Part I, Chapter 4 of the State's Manual for Planning and Execution of State Permanent Improvements (SPIRS Manual) states that when an agency requests transferring funds between projects, it should ensure that sufficient funds remain in the project from which the funds are to be transferred. However, the procedures here relate to transferring balances of projects nearing or at completion instead of transfers from new projects to complete old projects. Both the Code and the STARS Manual specify responsibilities of the Board and Control Board, Joint Bond Review Committee, and the General Assembly. However, the Agency did not inform oversight agencies or seek approval for its actions.

During our follow-up of these conditions, we were told by accounting personnel that corrective action had not been taken until fiscal year 2000. In addition, we noted the following:

1. The statewide project for underground storage tank (UST) removal/replacement project was closed in fiscal year 2000.
2. The Agency did not report any outstanding commitments on the fixed assets closing package although the Agency has on-going projects and reported contract retentions for its projects.
3. A CIB draw still has not been made to cover the $2,700 expenditure to the City of Gaffney.
4. The Agency still has not prorated the $107,487 partial payment of a mediation settlement for Pickens, Ware Shoals, and Fountain Inn Hawk armories.
5. The Agency is in the process of closing inactive permanent improvement accounts.

We again recommend the Agency establish policies and procedures to ensure all permanent improvement project funds are expended and accounted for in accordance with state and federal laws, rules, and regulations. To ensure that its projects are not over budget, we recommend that the Agency monitor each project's budget by funding source, reconcile its books to SPIRS and STODMS and reconcile CIB draws and expenditures between SPIRS and STODMS. It should not commit by funding source or in total to expenditures without sufficient, authorized funding. We recommend that the Agency monitor its cash balances in the various funds for its SPIRS projects to ensure that CIB and federal grant draws are made timely and in accordance with federal and state requirements.

We further recommend that the Agency review its organizational structure and take other measures necessary to increase trust and cooperation among its departments, clearly delineate the responsibilities of each department, and adequately train its employees. The Agency should consider its accounting system to be the official source for any internal or external accounting, budgeting, and financial information. It should eliminate duplicate sets of books and spreadsheets created because of this lack of trust. When federal military and state agency requirements make specialized reporting necessary, the Agency's books should be used or specialized reports should be supported by and reconciled to the Agency's books.

Also, we recommend that the Agency cease funding the completion of one project with a new project's funding and correct errors which have already occurred. The Agency should charge expenditures to and draw funds from the proper project and also inform and seek necessary approval for all transfers in funding for its SPIRS projects. Finally, we recommend that the Agency correct its and the State's books for projects over budget by funding source, for transactions made without proper authority and for use of improper accounts.

ACCOUNTING SYSTEM

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> The Agency uses the SABAR accounting system, which is used by several other State agencies. We noted that the Agency does not use SABAR as it was designed to the extent that it did not effectively and efficiently report accurate information to management or other users.
>
> The Agency has not utilized the budgeting component of its accounting system for several years. Neither budget and finance nor program managers can effectively monitor budgets. We noted that some managers designed spreadsheets for their own use because either the managers received information which was inaccurate or in an unusable form or they did not understand the information they received.

When agencies have grants and permanent improvement projects, they must maintain balances over the life of the project, not just by fiscal year. Therefore, accounting systems are designed so that prior year balances can be brought forward. We noted that the Agency was very inconsistent in accounting for carry forward balances (i.e., the Agency brought forward some account balances, overlooked others, and made opening balance adjustments directly to the carried-forward amount). The Agency did not use an automatic roll forward function of its accounting system, instead it manually posted roll-forward balances. This process increases the risk that errors will occur especially when employees who are unfamiliar with STARS and GAAP requirements make these decisions and perform these processes.

We also noted the Agency's federal financial reports did not agree to the Agency's books. Because the Agency did not timely correct errors in its accounting system and maintain project accounting data (i.e., cumulative expenditures), it maintained separate spreadsheets to accumulate information and make changes to the data prior to submission of the federal financial reports.

An agency should have an adequate accounting system in compliance with state and federal requirements as well as GAAP. As noted in the comment, Internal Control, one of the five components of internal controls is information and communication. Accurate information in a usable format should be available to all users.

We were told by accounting personnel that the conditions stated above still existed in fiscal year 1999 and that the Agency did not begin implementing corrective action until fiscal year 2000.

We again recommend that the Agency provide its accounting staff with training so it can maximize the use of its accounting system to properly account for all funds and accounts, particularly for grants, permanent improvements, and budgets. The Agency should consider using the automatic roll-forward feature to reduce the risk of error and ensure that corrections to beginning balances are not made without a proper audit trail, i.e., prior year balances are not changed in the current year without making opening balance adjustments.

We further recommend that the Agency establish policies and procedures to ensure that the Agency's accounting system will serve as its official source of financial information and that its internal users understand and trust the system. The Agency should prepare its federal financial reports from its accounting system. If corrections or accumulation of accounts are necessary, the Agency should document these and promptly make any necessary corrections to the accounting system which it discovers while preparing the federal financial reports.

DATA TRANSLATION TO THE STATE

The following comment was included in the State Auditor's Report for fiscal years 1998 and 1997.

> The State maintains two accounting systems: STARS which is its budgetary accounting system and Series Z which is its GAAP-basis accounting system. Agencies are required to submit all revenue and expenditure transactions to the State's Comptroller General to be processed in STARS and are required to reconcile their books to STARS. The Comptroller General translates STARS into Series Z and collects and processes other GAAP data on agency-prepared closing packages in order to produce its GAAP-basis financial statements. Both STARS and Series Z are table driven and for the financial statements to be accurate it is necessary that all the tables and translations be correct.
>
> All federal grants and permanent improvement projects are assigned project numbers, which are four digit numbers. Recurring grants awarded by grant year maintain the same project number but retain their separate identity through the use of phase codes, which are two digit numbers that follow the project numbers. Together these six digit project/phase code numbers comprise the State's D38 table. When permanent improvement projects are funded by federal grants, the State uses a process to interrelate the grant and permanent improvement project/phase codes. This process is described in the STARS Manual in Section 2.1.2.50.For fiscal years 1998 and 1997, the Agency has not submitted accurate information in sufficient detail to the State to ensure that the project/phase codes are used properly. It has not interrelated its grants and permanent improvements as required by the State. Therefore, because the Comptroller General relied on this data, the State's financial statements are incorrect as they relate to the Agency. We could not determine the extent of the inaccuracies; however, we informed the auditors of the State's financial statements of the problem and also pointed out the significant size of the Agency.
>
> The federal government assigns a catalog of federal domestic assistance (CFDA) number to most of its grants and cooperative agreements. The State requires each agency to provide the CFDA number for each grant when it obtains budgetary authority and approval for the grant. At this point, the State establishes the grant on the D38 table and also establishes a conversion table to relate D38 numbers and CFDA numbers. All documents submitted to the Comptroller General to be processed into STARS must include the project/phase code, if applicable.

Using the tables and the information provided on the transactions, the Comptroller General produces its CSA467 report which is a summary by project/phase code of cash, beginning fund balances, adjustment to beginning fund balances, revenues, and expenditures. The STARS Manual requires agencies to reconcile the CSA467 report to their books. See related findings in the comment, Reconciliations.

The State Treasurer is responsible for monitoring agencies' cash management and calculating interest receivable/payable under the federal Cash Management Improvement Act (CMIA). It uses data from STARS, including the project/phase codes and the translation to CFDA numbers to calculate cash balances by program. If these numbers and translations are inaccurate, then the interest calculations will also be inaccurate.

We noted that the Agency has significant errors in the translation of project/phase codes and CFDA numbers. Therefore, the State Treasurer's interest calculation is incorrect. Based on information provided by us, the State Treasurer requested the Agency to correct these errors in January 1999. On May 5, 1999, the Agency had not made the corrections.

We were told by accounting personnel that the conditions described above still existed in fiscal year 1999 and corrective action was not implemented until fiscal year 2000.

We again recommend that the Agency train its employees in the proper accounting of transactions and balances in SABAR, STARS, and GAAP-basis data provided to the Comptroller General. Also, we recommend that the Agency implement policies and procedures which ensure that all accounting data will be accurate, timely, and in compliance with all state and federal laws, rules, and regulations as well as with GAAP. The Agency should review the project/phase codes and CFDA numbers for each active grant and permanent improvement project and should make all the corrections needed. It should contact the Comptroller General and State Treasurer to determine what action is needed to correct errors that have already occurred.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Office of the Adjutant General for the fiscal years ended June 30, 1998 and 1997, and dated December 11, 1998. We determined that the Agency has taken adequate corrective action on the finding titled Payroll. However, we have repeated the following findings in Section A of the Accountant's Comments: Internal Control, Revenues, Expenditures, Reconciliations, Accounting Transactions, Closing Packages, Deferred Revenues, Petty Cash Checking Accounts, Workers' Compensation, Tuition Assistance Program, Schedule of Federal Financial Assistance, Public Assistance, Cost Allocation Plan, Permanent Improvement Project Accounting, Accounting System, and Data Translation to the State.

MANAGEMENT’S REPONSE

November 8, 2000

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

My staff has completed our review of the agreed-upon procedures report for the year ending June 30, 1999 and authorizes the release of this report. I am enclosing our response to your comments, which will be added to your report.

We have made many improvements and will continue to implement your recommendations. Although you will not find all these matters corrected during your next review of fiscal year 2000, it is our goal to have all recommendations implemented by the end of fiscal year 2001.

Please accept our thanks for minimizing the disruption to our staff. I believe it was an efficient use of resources of both of our staffs to mainly follow-up on the 1998 report. It allowed us more time to make the needed improvements.

Sincerely,

Stanhope S. Spears
Major General, SCARNG
The Adjutant General

Internal Control

We have developed an internal control program and are working to ensure that it is implemented and that controls in all areas are improved. In May, 2000, we hired a certified public accountant who has considerable state experience. We are working to increase overall state knowledge through internal and external training and by hiring new employees with state experience. We are focusing our hiring efforts on permanent (not temporary) employees with a focus on long-term solutions as well as some short-term, highly experienced employees with a short-term focus of catching up areas that have fallen behind. To improve compliance with laws, rules, and regulations, we have obtained current reference materials, such as the STARS Manual. We are taking steps to correct the findings noted in the last several years' audit reports. However, it will take time to correct some of these weaknesses that existed for several years.

For fiscal year 2000, we revised our account structure to maximize the use of all components of an account number: department, fund, and object. By doing so, we can now report in a manner usable by both the federal and state government. This has eliminated the need for separate records to be maintained for federal reporting purposes and has also increased the working relationship between budget and finance and the Agency's program managers.

We have informed the United States Property and Fiscal Officer (USPFO) that we have accounts from 1997 through 1999 that are not closed on our books. In September, 2000, we worked with the USPFO to close the 1999 Army National Guard accounts and are presently working with Air National Guard staff to close its accounts for 1997 through 1999.

Bringing the reconciliation process up to date is our biggest challenge. We have made significant improvements in this process and corrected many of our prior years' errors. We expect that this will be the longest process in our corrective action plan.

We no longer maintain the resource manager position. Instead, we are using a team-based management approach whereby a group of team leaders work together to manage an area. The chief of staff for state operations coordinates the resource management area. The intent of this change is to ensure that the group is working together and staying in touch with the day-to-day operations.

We are continuing to improve the quality assurance (referenced in your report as internal review) process. Beginning with federal fiscal year 2001, we are transferring an employee with a bachelors degree in accounting to the quality assurance area. She is developing an annual audit plan and will report to a newly formed audit committee that is chaired by the Adjutant General.

Revenues

Deposits and Supporting Information. In December, 1998, the revenue and reconciliation accountant resigned and was not replaced for several months. During this time, the Agency did not properly record and account for its revenues as noted in your report. We have made numerous journal entries in fiscal years 2001 and 2000 to correct these errors, omissions, and double counting as we detected them in our "catch-up" reconciliation process. We have reissued guidance to the armories and other receipting locations regarding the required controls and procedures.

Coding of Revenue. We are properly using object code 2805 – federal grant subcontract state to distinguish federal revenues received from other state agencies from those received directly from the federal government. (The majority of our federal revenues are received directly from the federal government.)

Transaction Numbering. The problem with transaction numbering continued through fiscal year 2000. However, we recorded and filed the hard copy documents using the SABAR transaction number. For fiscal year 2001, we are not using our separate numbering system that proved unmanageable and intend to use only the SABAR recorded number.

Expenditures

Procurement Code. Our procedure is to record that the price is fair and reasonable on the purchase requisition because this is the place in the process where this determination is made. (Because of the decentralization of the procurement and accounts payable process, the purchaser usually will not receive the invoice. The requisitioner and the appropriate approvers are the ones who should make this determination not the accounts payable clerks.) We have determined that this procedure would not cover direct payments, i.e., vouchers paid without a purchase order. Beginning in fiscal year 2001 for these vouchers, we will ensure that the invoices are evaluated and noted as "fair and reasonable".

Expenditure Cutoff. We significantly improved in this area at the end of fiscal year 2000. Both accounts payable and procurement worked to ensure that open purchase orders were closed as either paid or cancelled and that all voucher information (invoice, receiving report, etc.) was received timely to permit payment before the cutoff of month thirteen. We corresponded with all program areas to remind them of the cutoff requirements and to encourage their support.

Reconciliations

As previously stated, the reconciliation process is our biggest challenge. Because we did not properly prepare reconciliations and numerous differences exist between SABAR and

STARS, we are experiencing a long, difficult process to correct the errors and bring the reconciliations up to date. We are trying to identify a temporary employee familiar with the state system and reconciliation experience to prepare the older reconciliations. Our existing staff should be able to perform the reconciliation process on a current basis.

Accounting Transactions

Journal Entries. The same process that caused the numerical sequence finding for revenues caused this finding. See that response for the corrective action taken.

Appropriation Transfers. We have developed controls to ensure that all documents, including appropriation transfers, are properly prepared and approved. The document referenced in your report was properly recorded in "current transactions" for revenue and cash. We did not use SABAR for budget monitoring in fiscal year 1999; therefore, we did not post this document to budgetary expenditure accounts.

Closing Packages

We made significant improvements in the closing packages prepared for fiscal year 2000. For fiscal year 2000, we prepared a loans receivable package. Lease closing packages need improvement, as we did not have proper source data available to prepare these packages. For accounts payable, we documented our review of potential vouchers and listed our accounts payable. Also, we estimated our future payments on disaster assistance accounts payable. For the 2000 closing package, we did not include payroll in our accounts payable.

Our grants and entitlements package is supported by the schedule of federal financial assistance and the accounts payable closing package. Although our fixed assets accounting system supports the 2000 closing package, we still need to improve our fixed assets accounting system. The SABAR module for compensated absences does not properly separate holiday and overtime-compensatory leave when balances are brought forward. We manually calculated the separate amounts for the closing package. However, we are in the process of modifying our compensated absences accounting system in order to monitor the use of compensatory leave (with the 90-day rule). Overall, we have significantly improved the closing package process.

Deferred Revenues

The Agency's deferred revenues are minimal, mainly for armory rental deposits collected in advance. Due to employee turnover and the new employee being unaware of the requirement, we did not capture deferred revenues at the end of fiscal year 2000. We will include this requirement in budget and finance's policies and procedures manual and ensure that the revenue accountant captures this information at the end of fiscal year 2001.

Petty Cash Checking Accounts

Currently, each of the approximately 85 units has a petty cash bank account. The Agency recently revised Adjutant General Regulation 37-4 to require that the unit maintenance funds be maintained at the battalion level with each unit in a battalion receiving $500 once per year. As we determine which accounts to maintain and which to close, we intend to obtain the proper internal and external approvals for the remaining accounts. We currently anticipate maintaining approximately 16 accounts with a total of $42,500. Also, we intend to audit the accounts as we close them.

Workers' Compensation

We used our past credits and resumed paying premiums in fiscal year 2000. We allocated the premiums to each fund based on the proportionate share of payroll.

The employee who negotiated the prior credits is no longer employed by the Agency and the Agency does not have the records to determine if any prior year corrections are required. In the future, we will ensure that premiums, credits, and refunds are applied proportionate to payroll and to the applicable periods.

Tuition Assistance Program

As previously stated we completed the loans receivable closing package for 2000, including only receivables that had not exceeded the three-year statute of limitations. Based on the advice of the Judge Advocate General, we still have not contracted with the South Carolina Department of Revenue (DOR) for debt collection pending the outcome of legal cases against the DOR program.

The Agency has new legislation requiring the restructuring of the tuition assistance program. The new program will be associated with the South Carolina Student Loan Corporation and will take the Agency out of the debt collection process. The program is currently being developed and will probably be effective beginning in fiscal year 2002.

Schedule of Federal Financial Assistance

The schedule for 2000 was prepared from and reconciled to federal funds in SABAR. We improved the controls over the process and do not anticipate significant findings in this area.

Public Assistance

Due to changes in the way we handle this grant, the finding is no longer valid as written. However, we will comply with federal and state requirements for disaster assistance funds.

In fiscal year 2000, we assumed responsibility and accountability for federal disaster funds, regardless of whether the funds were expended by the Agency (activation of military) or passed through to other governments. Therefore, we changed the subfund accounting for disaster assistance. Most pass-through transactions will flow through the 5511 subfund and be treated as special revenue funds. Beginning with fiscal year 2001 in accordance with Comptroller General requirements, we are accounting for activity passed through to other state agencies in the 5544 pass-through subfund that is classified in STARS as an **agency** fund.

Regarding reimbursed funds, we have expended the $339,412 and $5,506 of the $657,000. The Agency did not realize that administrative costs should be remitted to the State General Fund. Currently, we do not have funds available to remit $344,918. We will pursue this matter with State authorities to resolve this matter as soon as possible.

Cost Allocation Plan

For fiscal years 1997 through 1999, the Agency had a "cost allocation plan" (CAP). Then the National Guard determined that the MCA does not allow indirect costs, specifically statewide-centralized costs. Therefore, it allowed a "centralized personnel plan" (CPP) to cover a state military department's centralized costs. For fiscal year 2000, the Agency had a CPP. In this CPP as recommended in your report, we adjusted for the differences in estimated vs. actual based on the estimates used in the 99 CAP.

In the development of all future CPPs, we will ensure that we apply all applicable cost principles and not repeat the errors listed in your report. Although we did not provide sufficient information for the state's auditors for the 1997 through 1999 plans, the USPFO did approve these plans and has closed the MCA for fiscal years 1997 through 1999. Therefore, we consider these plans closed.

Because the National Guard Bureau does not consider these plans to be indirect costs, we do not believe that these funds should be remitted to the State General Fund. Beginning with fiscal year 2000, our centralized costs recoveries were used only for the intended purposes. With the implementation of the CPP for fiscal year 2001, we intend to eliminate all temporary grant positions in the centralized cost departments. (We will only have temporary grant and time-limited positions in other departments that are funded by earmarked and federal funds.)

Permanent Improvement Project Accounting

Effective July 1, 2000, we reorganized our permanent improvement project accounting. In doing so, procurement's role in this area will be limited solely to approving procurements and issuing purchase orders. Facilities management and budget and finance will handle SPIRS accounting and reporting. We are in the process of developing controls and procedures to ensure that we are in federal and state compliance with permanent improvement project accounting. Also, we are in the process of closing completed SPIRS projects on the SPIRS and STARS systems as well as our SABAR system. We are reviewing CIB balances with the state and federal military construction balances with the USPFO to determine if we have unused funds for permanent improvement projects and what the proper disposition of such funds should be.

Regarding errors in specific projects, we will review and correct errors as appropriate. The Hawk projects (Pickens, Ware Shoals, and Fountain Inn) are in mediation but should be settled soon. As soon as we learn the outcome and finalize the costs, we will ensure that all three projects are properly charged and capitalized.

Accounting System

We have made significant progress in using SABAR to monitor budgets. As mentioned previously, the full use of department numbers has made our accounting system more useful to our internal users and the USPFO. We continue to encourage program managers to discuss their needs with budget and finance so that they will not see the necessity to maintain separate systems.

SABAR did not have an automatic rollover option as noted in your report. We agreed that this option was needed and contracted with the software developer to have this option. When we opened fiscal year 2001 on SABAR, we successfully used this option. It saved an enormous amount of time and eliminated errors that can easily occur in such a large, manual process. Also, we currently prepare all federal reports directly from SABAR.

Data Translation to the State

We have improved our understanding of how STARS and Series Z interrelate to each other and to SABAR. We are working to correct all such deficiencies in SABAR and in the information we provide to STARS and Series Z. We are working the State Treasurer to ensure that we properly comply with cash management.